

CHAPTER 12

CAPITAL LEASES PAYABLE1201 GENERAL

120101. Purpose. This chapter prescribes the accounting principles and policy to be followed by Department of Defense (DoD) Components to account for liabilities associated with capital leases.

120102. Overview. Unless otherwise provided by legislation, DoD Components are not authorized to enter into capital leases. Accordingly, agreements to lease real estate and personal property are limited to current year operating requirements.

1202 ACCOUNTING POLICY FOR CAPITAL LEASE LIABILITIES

★120201. The DoD Components authorized to enter into capital lease agreements shall treat the transaction as the acquisition of an asset and the incurrence of a liability. The amount to be recorded as a liability under a capital lease is the lesser of the present value of the rental and other minimum lease payments during the lease term, excluding the executory costs (actual or estimated) paid to the lessor, or the asset's fair value (see paragraph 070207. of Volume 4 of this Regulation).

★120202. Chapter 7 of this Volume also provides guidance for determining whether a lease is a capital lease or an operating lease and for determining the amounts to be recorded.

1203 ACCOUNTING FOR CAPITAL LEASE LIABILITIES

120301. The following account shall be used to record the DoD Component's liability for capital leases.

120302. Capital Lease Liability (Account 2940).

A. Capital Lease Liability is used to record the liability incurred for capital leases entered into pursuant to legislative authority.

B. Table 12-1 illustrates the most common entries used for this account.

C. Sources for entries to this account include lease agreements and disbursing vouchers.

★ ACCOUNTING ENTRIES FOR ACCOUNT 2940 - CAPITAL LEASE LIABILITY

1. (Dr 1810 Assets Under Capital Lease
 Cr 2940 Capital Lease Liability

To record the value of leased property.

2. Dr 2940 Capital Lease Liability
 Dr 6330 Other Interest Expenses
★ Cr 1010 Fund Balance with Treasury

To record payments on capital leases.

TABLE 12-1

★ ACCOUNT NO. 2940	
CAPITAL LEASE LIABILITY	
DESCRIPTION: Represents the liability for capital leases that have not expired.	
DEBIT	CREDIT
1. Record lease payments.	1. Record the value of leased property.
★Contra: 1010	Contra: 1730 1740 ★ 1750
NORMAL BALANCE: CREDIT	
FIGURE 12-1	